

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ADJUSTMENT OF RATES OF THE)
BRACKEN COUNTY WATER DISTRICT) CASE NO. 96-192

O R D E R

On May 6, 1996, Bracken County Water District ("Bracken Water") filed its application for Commission approval of proposed water rates. Commission Staff, having performed a limited financial review of Bracken Water's operations, has prepared the attached Staff Report containing Staff's findings and recommendations regarding the proposed rates. All parties should review the report carefully and provide any written comments or requests for a hearing no later than 7 days from the date of this Order.

IT IS THEREFORE ORDERED that all parties shall have no more than 7 days from the date of this Order to provide written comments regarding the attached Staff Report or request for a hearing. If no request for a hearing is received, this case will be submitted to the Commission for a decision.

Done at Frankfort, Kentucky, this 7th day of February, 1997.

ATTEST:


Executive Director

PUBLIC SERVICE COMMISSION


For the Commission

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ADJUSTMENT OF RATES OF THE
BRACKEN COUNTY WATER DISTRICT

) CASE NO.
) 96-192

STAFF REPORT

Prepared By: Mark C. Frost
Public Utility Financial
Analyst, Chief
Water and Sewer Revenue
Requirements Branch
Financial Analysis Division

Prepared By: Christopher H. Smith
Public Utility Rate Analyst
Communications, Water and
Sewer Rate Design Branch
Rates and Research Division

STAFF REPORT

ON

BRACKEN COUNTY WATER DISTRICT

CASE NO. 96-192

On May 6, 1996, Bracken County Water District ("Bracken") filed its application seeking to increase its water rates pursuant to 807 KAR 5:001, Section 10. In order to evaluate the requested increase, the Commission Staff ("Staff") performed a limited financial review of Bracken's test-period operations for the 1995 calendar year.

The scope of the review was limited to obtaining information to determine whether the test-period operating revenues and expenses were representative of normal operations. Insignificant or immaterial discrepancies were not pursued and are not addressed herein.

Mark Frost of the Commission's Division of Financial Analysis performed the limited review on June 11, 1996, October 2, 1996, and December 5 and 20, 1996. Mr. Frost is responsible for the preparation of this Staff Report except for the determination of Water Sales and Attachment D, Cost of Service Study.

Comparisons of Bracken Water's actual and pro forma operations for Division I and Division II are shown as Attachment A. Based upon Staff's recommended adjustments, Bracken's merged operating statement would appear as set forth in Attachment B.

As shown in Attachment C, Bracken determined that its merged pro forma operations support a revenue requirement of \$562,345, an increase in its revenue from water sales of \$196,147. However, Staff's recommended operations as shown in the same attachment result in a revenue requirement from water sales of \$440,127, an increase in revenue from water sales of \$38,434. In addition, as discussed below, Staff recommends

approval of debt service surcharges of \$96,615 and \$18,297, resulting in a total recommended revenue increase of \$153,346. The rates contained in Attachment D will achieve Staff's recommended revenue requirement from water sales.

According to KRS 74.363 (5), when two water districts enter into a voluntary merger, any outstanding debt obligation of the original districts is to be repaid or retired from the revenues collected from that district's pre-merger customer base. To comply with this statutory requirement, Staff recommends Bracken be granted separate debt service surcharges for each division. Staff has determined that the annual debt services for Division I and Division II are \$96,615 and \$18,297, respectively. The debt service surcharges contained in Attachment D are sufficient to pay Bracken's annual debt service payments.

Staff recommends: (1) that the Division I debt service surcharge be in effect until December 31, 2015 or until the Kentucky Infrastructure Authority and the First National Bank of Brooksville debt obligations are retired; and (2) that the Division II debt service surcharge be in effect until December 31, 2001 or until the the General Electric debt obligation is retired.

If the surcharges are granted, the proceeds should be placed in separate interest bearing accounts. Monthly transfers to the surcharge accounts should be equal to the proceeds from the monthly surcharges recommended herein and should be transferred from each division's gross operating revenue prior to the revenue being dispersed for another purpose. Bracken should be directed to file with its Annual Report, an annual

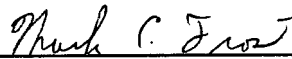
summary containing the following information: separate monthly surcharge billings and collections; separate monthly bank statements for the interest bearing surcharge accounts; and loan payments from the account. Bracken's failure to comply with the above funding requirements or to file the annual summary should warrant the revocation of the surcharges and refunding of the monies already collected, plus interest thereon.

The surcharges constitute Contributions In Aid of Construction, and should be accounted for in the manner prescribed by the Uniform System of Accounts for Class A&B Water Districts and Associations. The monthly billing should be debited to customer accounts receivable and credited to the contributions account. When the amount is collected, special funds would be debited and customer accounts credited.

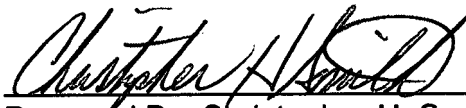
On January 6, 1996, Bracken filed a proposed contract between it and Bracken County High School wherein it proposed to charge the High School a flat rate of \$3.00 per 1,000 gallons with a minimum usage of 10,000 gallons or \$30. The contract would remain in effect for a period of one year from its signing or until such time that Bracken applies for and receives approval for a change in its rates. The contract further stated that at such time that Bracken applies for and receives a change in its rates the High School would have its own special rate schedule. The average usage for the High School during 1995 was 32,208 gallons, which is not great enough to warrant a special wholesale rate. Staff is of the opinion that the High School should be charged the same rates as Bracken's other customers.

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Signatures



Prepared By: Mark C. Frost
Public Utility Financial
Analyst, Chief
Water and Sewer Revenue
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Financial Analysis Division



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Public Utility Rate Analyst
Communications, Water and
Sewer Rate Design Branch
Rates and Research Division

Bracken County Water District

Case No. 96-192

Bracken's Requested Operations

Attachment A

DIVISION I
COMPARISON OF ACTUAL AND PRO FORMA OPERATIONS

| | Test Period Actual | Pro Forma Adjustments | Pro Forma Operations |
|-------------------------------------|-----------------------|--------------------------|-------------------------|
| | ----- | ----- | ----- |
| Operating Revenues | \$295,257 | (\$47,259) | \$247,998 |
| | ----- | ----- | ----- |
| Operating Expenses: | | | |
| Operation & Maintenance: | | | |
| Salaries & Wages-Emp. | \$76,755 | (\$1,232) | 75,523 |
| Salaries & Wages-Officers | 4,500 | 900 | 5,400 |
| Purchased Water | 0 | 0 | 0 |
| Purchased Power | 25,625 | 0 | 25,625 |
| Chemicals | 18,247 | 0 | 18,247 |
| Materials & Supplies | 74,262 | 0 | 74,262 |
| Office Rent & Utilities | 3,104 | 4,186 | 7,290 |
| Vehicle Expense | 733 | 3,744 | 4,477 |
| Contractual Services - Eng. | 0 | 0 | 0 |
| Contractual Services - Acct. | 3,000 | 685 | 3,685 |
| Contractual Services - Other | 26,108 | 0 | 26,108 |
| Contractual Services - Meter Reader | 0 | 0 | 0 |
| Insurance | 12,612 | 4,259 | 16,871 |
| Regulatory Commission Exp. | 0 | 0 | 0 |
| Miscellaneous | 89 | 0 | 89 |
| Insurance-New Tank | 0 | 677 | 677 |
| Continuing Education-3rd Operator | 0 | 211 | 211 |
| Meter Replacement | 0 | 4,302 | 4,302 |
| Tank Cleaning | 0 | 3,750 | 3,750 |
| Office Cleaning | 0 | 764 | 764 |
| Telemetry System | 0 | 2,143 | 2,143 |
| | ----- | ----- | ----- |
| Total Operation & Maint. | \$245,035 | \$24,389 | \$269,424 |
| Depreciation | 57,913 | 0 | 57,913 |
| Taxes Other Than Income Tax | 7,175 | 0 | 7,175 |
| | ----- | ----- | ----- |
| Total Operating Expenses | \$310,123 | \$24,389 | \$334,512 |
| | ----- | ----- | ----- |
| Net Operating Income | (\$14,866) | (\$71,648) | (\$86,514) |
| Other Income: | | | |
| Interest | 14,176 | (6,074) | 8,102 |
| Other Deductions; | | | |
| Interest | 36,774 | 0 | 36,774 |
| | ----- | ----- | ----- |
| Net Income | (\$37,464) | (\$77,722) | (\$115,186) |
| | ----- | ----- | ----- |

DIVISION II
COMPARISON OF ACTUAL AND PRO FORMA OPERATIONS

| | Test Period Actual | Pro Forma Adjustments | Pro Forma Operations |
|-------------------------------------|-----------------------|--------------------------|-------------------------|
| | ----- | ----- | ----- |
| Operating Revenues | \$118,200 | \$0 | \$118,200 |
| | ----- | ----- | ----- |
| Operating Expenses: | | | |
| Operation & Maintenance: | | | |
| Salaries & Wages-Emp. | \$14,400 | \$25,395 | 39,795 |
| Salaries & Wages-Officers | 1,800 | 3,600 | 5,400 |
| Purchased Water | 47,259 | (47,259) | 0 |
| Purchased Power | 5,346 | 0 | 5,346 |
| Chemicals | 605 | 0 | 605 |
| Materials & Supplies | 4,240 | 0 | 4,240 |
| Office Rent & Utilities | 1,200 | 2,390 | 3,590 |
| Vehicle Expense | 0 | 2,205 | 2,205 |
| Contractual Services - Eng. | 0 | 0 | 0 |
| Contractual Services - Acct. | 1,500 | 315 | 1,815 |
| Contractual Services - Other | 8,008 | 0 | 8,008 |
| Contractual Services - Meter Reader | 0 | 2,646 | 2,646 |
| Insurance | 2,334 | 3,174 | 5,508 |
| Regulatory Commission Exp. | 0 | 0 | 0 |
| Miscellaneous | 3,276 | 0 | 3,276 |
| Insurance-New Tank | 0 | 0 | 0 |
| Continuing Education-3rd Operator | 0 | 104 | 104 |
| Meter Replacement | 0 | 2,118 | 2,118 |
| Tank Cleaning | 0 | 3,750 | 3,750 |
| Office Cleaning | 0 | 376 | 376 |
| Telemetry System | 0 | 1,056 | 1,056 |
| | ----- | ----- | ----- |
| Total Operation & Maint. | \$89,968 | (\$130) | \$89,838 |
| Depreciation | 11,788 | 0 | 11,788 |
| Taxes Other Than Income Tax | 1,103 | 0 | 1,103 |
| | ----- | ----- | ----- |
| Total Operating Expenses | \$102,859 | (\$130) | \$102,729 |
| | ----- | ----- | ----- |
| Net Operating Income | \$15,341 | \$130 | \$15,471 |
| Other Income: | | | |
| Interest | 470 | 0 | 470 |
| Other Deductions; | | | |
| Interest | 3,662 | 0 | 3,662 |
| | ----- | ----- | ----- |
| Net Income | \$12,149 | \$130 | \$12,279 |
| | ----- | ----- | ----- |

Bracken County Water District

Case No. 96-192

Staff's Recommended Operations

Attachment B

MERGED SYSTEM
COMPARISON OF ACTUAL AND PRO FORMA OPERATIONS

| | Division I Bracken County 1995 Annual Report | Division II Western Bracken 1995 Annual Report | Merged Operations | Pro Forma Adjustments | Foot- Note Ref | Pro Forma Operations |
|---------------------------------------|---|---|----------------------|--------------------------|----------------------|-------------------------|
| Operating Revenues: | | | | | | |
| Water Sales | \$295,257 | \$118,200 | \$413,457 | (\$11,764) | A | \$401,693 |
| Operating Expenses: | | | | | | |
| Operation & Maintenance: | | | | | | |
| Salaries & Wages-Emp. | \$76,755 | \$14,400 | \$91,155 | \$4,781 | B | \$95,936 |
| Salaries & Wages-Officers | 4,500 | 1,800 | 6,300 | 4,500 | C | 10,800 |
| Purchased Water | 0 | 47,259 | 47,259 | 99,585 | D | 146,844 |
| Purchased Power | 25,625 | 5,346 | 30,971 | (14,366) | E | 16,605 |
| Chemicals | 18,247 | 605 | 18,852 | (18,852) | F | 0 |
| Materials & Supplies | 78,098 | 5,440 | 83,538 | (43,066) | G | 40,472 |
| Office Rent & Utilities | 0 | 0 | 0 | 7,200 | H | 7,200 |
| Transportation | 0 | 0 | 0 | 2,452 | I | 2,452 |
| Contractual Services - Eng. | 19,632 | 0 | 19,632 | (19,632) | J | 0 |
| Contractual Services - Acct. | 3,000 | 0 | 3,000 | 2,000 | K | 5,000 |
| Contractual Services - Other | 26,108 | 9,508 | 35,616 | (17,072) | L | 18,544 |
| Insurance | 12,612 | 2,334 | 14,946 | 746 | M | 15,692 |
| Regulatory Commission Exp. | 573 | 0 | 573 | 0 | | 573 |
| Miscellaneous | 89 | 3,276 | 3,365 | 0 | | 3,365 |
| Total Operation & Maint. | \$265,239 | \$89,968 | \$355,207 | \$8,276 | | \$363,483 |
| Depreciation | 57,913 | 11,788 | 69,701 | 114 | N | 69,815 |
| Amortization | 0 | 0 | 0 | 4,692 | O | 4,692 |
| Taxes Other Than Income Tax | 7,175 | 1,103 | 8,278 | (458) | P | 7,820 |
| Total Operating Expenses | \$330,327 | \$102,859 | \$433,186 | \$12,624 | | \$445,810 |
| Utility Operating Income | (\$35,070) | \$15,341 | (\$19,729) | (\$24,388) | | (\$44,117) |
| Other Income: | | | | | | |
| Interest | 14,176 | 470 | 14,646 | 0 | | 14,646 |
| Non-Utility Income | 14,109 | 0 | 14,019 | 0 | | 14,019 |
| Net Income Available for Debt Service | (\$6,785) | \$15,811 | \$8,936 | (\$24,388) | | (\$15,452) |

A. Water Sales:

Staff prepared a billing analysis for Division I using the test-period customer information. This adjustment reflects Staff's Division I billing analysis, Bracken's Division II billing analysis, and current tariffed rates.

| | |
|---|------------|
| Merged Test-Period Water Sales per Billing Analysis | \$448,952 |
| Less: Sales to Western Bracken | 47,259 |
| | ----- |
| Total Normalized Water Sales | \$401,693 |
| Less: Reported Water Sales per 1995 Annual Reports | 413,457 |
| | ----- |
| Staff's Water Sales Revenue Adjustment | (\$11,764) |
| | ----- |

B. Salaries & Wages-Emp:

In 1996 Bracken closed its well field and began to purchase its water from the City of Augusta ("Augusta"), which resulted in a reduction in the number of plant operators. An adjustment to reflect Bracken's current staff level and wages would meet the rate-making criteria of being known and measurable. Therefore, this adjustment reflects the current staff level and the pay raise granted in 1996.

| Position Title | Regular | Overtime | Total |
|---|----------|----------|----------|
| | ----- | ----- | ----- |
| Office Manager | \$17,618 | \$172 | \$17,790 |
| Account Clerk | \$6,480 | \$0 | 6,480 |
| Distribution Supervisor | \$22,880 | \$11,864 | 34,744 |
| Maintenance Employee | \$20,800 | \$1,860 | 22,660 |
| Meter Reader | \$7,500 | \$0 | 7,500 |
| Maintenance Employee | \$6,762 | \$0 | 6,762 |
| | | | ----- |
| Pro Forma Salaries & Wages-Emp | | | \$95,936 |
| Less: Reported Salaries & Wages-Emp | | | 91,155 |
| | | | ----- |
| Staff's Salaries & Wages - Employees Expense Adjustment | | | \$4,781 |
| | | | ----- |

C. Salaries & Wages-Officers

This adjustment reflects paying each of the current commissioners a fee of \$150 per month.

| | | |
|--|---------------|----------|
| \$150 (Monthly Commissioner Fee) x | 12 (Months) = | \$1,800 |
| Multiplied by: Current Number of Commissioners | | 6 |
| | | ----- |
| Pro Forma Salaries & Wages-Officers | | \$10,800 |
| Less: Reported Salaries & Wages-Officers | | 6,300 |
| | | ----- |
| Staff's Salaries & Wages - Officers Expense Adjustment | | \$4,500 |
| | | ----- |

D. Purchased Water:

On July 24, 1996, the Commission approved the purchased water contract between Bracken and Augusta. The contract requires Bracken to pay a water cost of \$0.65 per 1,000 gallons and monthly debt payment of \$4,407. This adjustment reflects the approved rates and the gallons of water Bracken sold in the test period.

| | | |
|--|-------------------------------|---------------|
| 144,554.000 (1995 Water Sales) x | \$0.65 (Rate per 1,000 Gal) = | \$93,960 |
| Add: Capital Payment | \$4,407 (Monthly Charge) | 12 (Months) = |
| | | 52,884 |
| | | ----- |
| Pro Forma Purchased Water | | \$146,844 |
| Less: Reported Purchased Water | | 47,259 |
| | | ----- |
| Staff's Purchased Water Expense Adjustment | | \$99,585 |
| | | ----- |

E. Purchased Power:

This adjustment reflects: (1) eliminating the electricity used at the well field; (2) reducing the Old Highway 14 (Account # 284552-10 4) bills to the minimum rate, per Bracken; (3) including the electric consumption at the new office; and (4) including the test-period actual usage at the other meters.

| | | | | |
|--|-------------|---------------------------|-------------|------------|
| Staff's Test-Period Electric | | | | \$15,686 |
| Old Hwy. 14 | 284553-10 4 | \$4 (Min. Monthly Bill) x | 12 (Months) | 48 |
| 103 Woodward | 218576-21 4 | New Office - 1995 Usage | | 348 |
| 103 Woodward | 219576-81 1 | New Office - 1995 Usage | | 523 |
| | | | | ----- |
| Pro Forma Purchased Power Expense | | | | \$16,605 |
| Less: Reported Purchased Power Expense | | | | 30,971 |
| | | | | ----- |
| Staff's Purchased Power Expense Adjustment | | | | (\$14,366) |
| | | | | ----- |

F. Chemicals:

This adjustment eliminates the chemical cost from test-period operations.

| | | | | |
|---------------------------|--|--|--|------------|
| Reported Chemical Expense | | | | (\$18,852) |
| | | | | ----- |

G. Materials & Supplies:

This adjustment reflects: (1) removing capital expenditures from test-period operations; (2) eliminating transportation and office rent to correct classification errors; (3) eliminating the employee telephone reimbursement; and (4) eliminating the water treatment costs from this expense.

| | | | | |
|--|--|--|--|------------|
| Capital Expenditures (Detail List - Depreciation Adjustment) | | | | (\$32,659) |
| Transportation & Office Rent | | | | (5,773) |
| Employee Telephone Reimbursement | | | | (794) |
| Water Treatment Costs (Iron Out & Rust Removal) | | | | (3,840) |
| | | | | ----- |
| Staff's Material & Supplies Expense Adjustment | | | | (\$43,066) |
| | | | | ----- |

H. Office Rent:

This adjustment reflects Bracken's current office rent of \$600 per month.

| | | |
|--------------------------------|---------------|---------|
| \$600 (Current Monthly Rent) x | 12 (Months) = | \$7,200 |
| | | ----- |

I. Transportation:

Bracken began to purchase its own gasoline in 1996. Since gasoline will be an on-going expense it should be reflected in test-period operations. This adjustment reflects the annulization of the average monthly gasoline purchases.

| | | |
|--|------------|---------|
| \$361 (Oct. thru Dec. '95 Gas Purchases) / | 3 Months = | \$120 |
| Multiplied by: 12-months | | 12 |
| | | ----- |
| Pro Forma Gas Purchases | | \$1,440 |
| Add: Actual Test-Period Automobile Repairs | | 1,012 |
| | | ----- |
| Staff's Transportation Expense Adjustment | | \$2,452 |
| | | ----- |

J. Contractual Services - Eng:

In 1995 Bracken's engineer performed work on the merger with Western Bracken and the construction of a new tank. The fees were paid in the test-period, and therefore, have already been recovered from Bracken's customers. While Bracken will require the services of an engineer in the future it is highly unlikely that Bracken will pay fees of this magnitude on a recurring basis. Furthermore, Bracken excluded these engineering fees from its test-period operations and did not seek recovery of the amortization. For these reasons, Staff recommends that the engineering fees be removed from test-period operations and that the fees not be amortized.

Non-recurring - Merger Costs (\$19,632)

K. Contractual Services - Accounting:

This adjustment reflects the increased 1995 auditing fee paid to Bracken's accountant.

1995 Accounting Fee \$5,000
 Less: Reported Contractual Service - Accounting 3,000

Staffs Contractual Service - Accounting \$2,000

L. Contractual Services - Other:

This adjustment reflects: (1) removing the cost of the time clock, which is a capital expenditure; and (2) eliminating salaries and accounting fees to correct expense classification errors.

Time Clock for Pumping Station (\$298)
 Reported Salaries & Wages-Emp & Accounting Fee (16,774)

Staffs Contractual Service - Other Expense Adjustment (\$17,072)

M. Insurance:

This adjustment reflects the current insurance premiums paid by Bracken.

Workers Compensation:

| | | | | |
|-----------------|--|--|----------|---------|
| Water Works Op. | \$71,666 (Pro Forma Maint. Salaries) x | | \$0.0685 | \$4,909 |
| Office/Clerical | \$24,270 (Pro Forma Office Salaries) x | | \$0.0050 | 121 |

| | | | | |
|---------------------------------------|---------|---------------|--|---------|
| Pro Forma Annual Base Premium | | | | \$5,030 |
| Add: Rate Adjustment Factor | \$5,030 | x 5% (Rate) = | | (252) |
| Expense Constant | | | | 140 |
| Add: Kentucky Special Fund Assessment | \$4,918 | x 9% (Rate) = | | 443 |

| | | | | |
|--|-------------------------|---------------|---------------------|---------|
| Pro Forma Workers Compensation Premium | | | | \$5,361 |
| Emp. Health Ins. | \$1,572 (Annual Prem) x | | 3 (Full Time Emp) = | 4,716 |
| Emp. Life Ins. | \$28 (Monthly Prem) x | | 12 (Months) = | 336 |
| Bond - State Encroachment | 04503033 | Period ending | 09-Jan-97 | 102 |
| Bond - County Encroachment | 68484330 | Period ending | 29-Mar-97 | 102 |
| Bond - Commissioner Jones | 68457818 | Period ending | 17-Nov-97 | 51 |
| Bond - Commissioner Kern | 58543789 | Period ending | 20-Nov-97 | 51 |
| Bond - Commissioner Bauer | 58543970 | Period ending | 20-Nov-97 | 51 |
| Bond - Treasurer Bauer | 68191133 | Period ending | 20-Nov-97 | 305 |
| Bond - Clerk/Collector Wilson | 68454788 | Period ending | 12-Oct-97 | 175 |
| Commercial Liability | 11CMO1381 | Period ending | 26-Aug-97 | 1,955 |
| Commercial Liability | 84PR00229 | Period ending | 11-Dec-97 | 2,487 |

Pro Forma Insurance Expense \$15,692
 Less: Reported Insurance Expense 14,946

Staffs Insurance Expense Adjustment \$746

N. Depreciation:

This adjustment reflects the depreciation of the capital expenditures removed elsewhere and elimination of the expensed depreciation associated with the well field.

| | Expenditure | Estimated Useful Lives | Depreciation Expense |
|---|-------------|---------------------------|-------------------------|
| Test-Period Expenditures: | | | |
| Gas Line | \$3,307 | 10 | \$331 |
| Tools for Meter Installation | \$1,255 | 10 | 126 |
| Pressure Recorder | \$521 | 10 | 52 |
| Two Cylinder Scales | \$1,118 | 10 | 112 |
| Meter Services | \$178 | 40 | 4 |
| Chlorinator Control Unit | \$2,681 | 10 | 268 |
| 94-100 Diaphragm Pump Package | \$910 | 10 | 91 |
| Portable Pump | \$1,157 | 10 | 116 |
| Meter Services | \$2,307 | 40 | 58 |
| 2" PVC Pipe | \$1,520 | 40 | 38 |
| White Meter Box | \$239 | 40 | 6 |
| Meter Services Pressure Regulator | \$759 | 10 | 76 |
| Meter Services | \$737 | 40 | 18 |
| Flush Hydrant | \$1,531 | 10 | 153 |
| Meter Services | \$393 | 40 | 10 |
| Lock Seal Pin & Lock | \$1,103 | 10 | 110 |
| Meter Services | \$1,210 | 40 | 30 |
| 1991 Chevrolet S-10 Truck | \$6,957 | 5 | 1,391 |
| Battery Backup | \$496 | 5 | 99 |
| Desks & Chairs | \$440 | 5 | 88 |
| Retired Utility Plant: Wells & Springs | | | (3,063) |
| Staff's Depreciation Expense Adjustment | | | \$114 |

O. Amortization:

This adjustment reflects amortizing the telemetry repairs and the tank painting/cleaning over their estimated lives.

| | Expenditure | Estimated Useful Lives | Amortization Expense |
|--|-------------|---------------------------|-------------------------|
| Telemetry System Repair | \$63,979 | 20 | \$3,199 |
| Tanks & Clearwells Painted & Cleaned in 1996 | \$10,450 | 7 | 1,493 |
| Staff's Amortization Expense Adjustment | | | \$4,692 |

P. Taxes of Than Income Taxes:

This adjustment reflects the pro forma salaries expense adjustment recommended herein and the current FICA rate.

| | |
|--|-----------|
| Staff's Salaries & Wages - Employees Expense Adjustment | \$4,781 |
| Staff's Salaries & Wages - Officers Expense Adjustment | 4,500 |
| Reported Salaries & Wages-Emp | (15,274) |
| Net Salaries & Wages Adjustment | (\$5,993) |
| Multiplied by: FICA Rate | 7.65% |
| Staff's Recommended Taxes Other Than Income Tax Adjustment | (\$458) |

Bracken County Water District

Case No. 96-192

Revenue Requirement Comparision

Attachment C

**BRACKEN AND STAFF
REVENUE REQUIREMENT COMPARISON**

Bracken:

| | Division I | Division II | Total |
|--------------------------------------|------------|-------------|-----------|
| Debt Service | \$93,325 | \$18,072 | \$111,397 |
| Multiplied by: Requested DSC | 1.2 | 1.2 | 1.2 |
| Subtotal | \$111,990 | \$21,686 | \$133,676 |
| Add: Pro Forma Operating Expenses | 334,512 | 102,729 | 437,241 |
| Total Requested Revenue Requirement | \$446,502 | \$124,415 | \$570,917 |
| Less: Pro Forma Interest Income | 8,102 | 470 | 8,572 |
| Requested Revenues from Rates | \$438,400 | \$123,945 | \$562,345 |
| Less: Normalized Water Sale Revenues | 247,998 | 118,200 | 366,198 |
| Requested Increase from Rates | \$190,402 | \$5,745 | \$196,147 |

Staff:

| | |
|---|-----------|
| Debt Service Division I | \$96,615 |
| Debt Service Division II | 18,297 |
| Total Debt Service | \$114,912 |
| Multiplied by: Recommended Coverage | 0.2 |
| Recommended Debt Service Coverage | \$22,982 |
| Add: Pro Forma Operating Expenses | 445,810 |
| Recommended Revenue Requirement | \$468,792 |
| Less: Other Operating Revenue | 28,665 |
| Recommended Revenue from Water Sales | \$440,127 |
| Less: Pro Forma Water Sales | 401,693 |
| Recommended Increase | \$38,434 |
| Recommended Division I Debt Surcharge | \$96,615 |
| Recommended Division II Debt Surcharge | 18,297 |
| Recommended Revenue from Water Sales | 440,127 |
| Total Recommended Revenue from Operations | \$555,039 |
| Less: Pro Forma Operating Revenues | 401,693 |
| Total Recommended Revenue Increase | \$153,346 |

Bracken County Water District

Case No. 96-192

Cost of Service Study

Attachment D

ALLOCATION OF PLANT VALUE

| | TOTAL | COMMODITY | DEMAND | CUSTOMER |
|-----------------------------|--------------------|------------|--------------------|------------------|
| LAND AND PLANT | \$455,999 | | \$455,999 | |
| DISTRIBUTION PLANT | 30,535 | | 30,535 | |
| TRANSMISSION & DISTRIBUTION | 1,842,607 | | 1,842,607 | |
| METERS | 154,452 | | | \$154,452 |
| SUB TOTAL | \$2,483,593 | \$0 | \$2,329,141 | \$154,452 |
| PERCENTAGE | 100% | | 94% | 6% |
| MISCELLANEOUS | 22,104 | | 20,729 | 1,375 |
| TRANSPORTATION | 12,742 | | 11,950 | 792 |
| OFFICE FURNITURE | 23,069 | | 21,634 | 1,435 |
| TOTAL | \$2,541,509 | \$0 | \$2,383,454 | \$158,054 |
| PERCENTAGE | 100.00% | | 93.78% | 6.22% |
| Source: 1995 Annual Reports | | | | |

ALLOCATION OF TEST YEAR DEPRECIATION

| | TOTAL | COMMODITY | DEMAND | CUSTOMER |
|-----------------------------|-----------|-----------|-----------|----------|
| PLANT | \$203,567 | | \$203,567 | |
| DISTRIBUTION | 349,673 | | 349,673 | |
| METERS | 66,725 | | | 66,725 |
| OTHER | 6,670 | | 3,335 | 3,335 |
| TOTAL | \$626,635 | | \$556,575 | \$70,060 |
| PERCENTAGE | 100.00% | | 88.82% | 11.18% |
| Source: 1995 Annual Reports | | | | |

ALLOCATION OF OPERATION AND MAINTENANCE

| | TOTAL | COMMODITY | DEMAND | CUSTOMER |
|------------------------------|------------------|------------------|------------------|-----------------|
| SALARIES AND BENEFITS | | | | |
| OFFICE | \$26,131 | | \$13,065 | \$13,065 |
| MAINTENANCE | 72,136 | | 72,136 | |
| METER READING | 8,083 | | | 8,083 |
| OFFICERS | 10,800 | | 5,400 | 5,400 |
| PURCHASED WATER | 146,844 | 93,960 | 52,884 | |
| POWER/SYSTEM | 15,734 | 15,734 | | |
| POSTAGE | 2,744 | | | 2,744 |
| SUB TOTAL | \$282,472 | \$109,694 | \$143,485 | \$29,292 |
| LESS COMMODITY | 109,694 | | | |
| TOTAL | 172,778 | | | |
| PERCENTAGE | | | 83.05% | 16.95% |
| REGULATORY | 573 | | 476 | 97 |
| INSURANCE | 5,279 | | 4,384 | 895 |
| CONTRACTUAL | 23,544 | | 19,552 | 3,992 |
| MATERIALS/SUPPLIES | 37,728 | | 31,332 | 6,396 |
| TRANSPORTATION | 2,452 | | 2,036 | 416 |
| POWER/OFFICE | 871 | | 723 | 148 |
| OFFICE RENT | 7,200 | | 5,979 | 1,221 |
| MISC. | 3,365 | | 2,794 | 570 |
| TOTAL | \$363,484 | \$109,694 | \$210,762 | \$43,026 |

ALLOCATION OF COST OF SERVICE

| | TOTAL | COMMODITY | DEMAND | CUSTOMER |
|---------------------------------|-------------|-----------|-------------|-----------|
| PLANT VALUE | \$2,541,508 | | \$2,383,454 | \$158,054 |
| PERCENT | 100% | | 94% | 6% |
| OPERATION AND MAINTENANCE | \$363,484 | \$109,694 | \$210,762 | \$43,026 |
| DEPRECIATION AND AMORTIZATION | 82,341 | | 73,135 | 9,206 |
| TOTAL OPERATING EXPENSES | \$445,825 | \$109,694 | \$283,897 | \$52,232 |
| LESS: OTHER INCOME | 28,665 | | 14,333 | 14,333 |
| OPERATING EXPENSES | \$417,160 | \$109,694 | \$269,565 | \$37,899 |
| LESS BULK SALES AT \$4.00/1,000 | 13,908 | 4,000 | 9,908 | |
| REVENUE REQUIRED FROM RATES | \$403,252 | \$105,694 | \$259,657 | \$37,899 |

ALLOCATION OF COST TO RATE STEPS

| | | FIRST | OVER | BROOKSVILLE |
|--|-------------|------------|-------------|-------------|
| | TOTAL | 2,000 | 2,000 | |
| ACTUAL SALES | 141,077,652 | 30,785,515 | 80,768,137 | 29,524,000 |
| PERCENT | | 22% | 57% | 21% |
| WEIGHTED SALES | 212,247,236 | 61,571,030 | 121,152,206 | 29,524,000 |
| PERCENT | | 29% | 57% | 14% |
| ALLOCATION OF COSTS | | | | |
| COMMODITY | \$105,694 | \$23,064 | \$60,511 | \$22,119 |
| DEMAND | 259,657 | 75,324 | 148,214 | 36,119 |
| TOTAL | \$365,351 | \$98,388 | \$208,725 | \$58,238 |
| WATER RATE | | \$5.48 | \$2.58 | \$1.97 |
| CUSTOMER CHARGE | 37,899 | 2.11 | | |
| RATE | | \$7.59 | \$2.58 | \$1.97 |
| DIVISION 1 DEBT SERVICE | \$96,615 | | | |
| Less Brooksville's amount | 13,439 | | | |
| SURCHARGE | | \$6.57 | | \$0.46 |
| DIVISION 2 DEBT SERVICE | \$18,297 | | | |
| SURCHARGE | | \$3.45 | | |
| Brooksville debt service based on percentage of demand. | | | | |
| Division 1 and 2 debt service based on number of customers | | | | |

VERIFICATION OF RECOMMENDED RATES

| | Bills | Gallons | Rate | Revenue |
|----------------------|--------|-------------|--------|------------------|
| First 2,000 | 17,950 | 30,785,515 | \$7.56 | \$135,702 |
| Over 2,000 | | 80,768,137 | 2.58 | 232,738 |
| Retail Revenue | 17,950 | 111,553,652 | | \$368,440 |
| Brooksville | 12 | 29,524,000 | 1.97 | 58,162 |
| Bulk Sales | | 3,477,000 | 4.00 | 13,908 |
| Subtotal | 17,962 | 144,554,652 | | \$440,511 |
| Surcharges | | | | |
| Division 1 | 12,646 | | \$6.57 | 83,084 |
| Brooksville | | 29,524,000 | 0.46 | 13,581 |
| Division 2 | 5,304 | | \$3.45 | 18,299 |
| Total Surcharge | | | | \$114,964 |
| Total Revenue | | | | \$555,475 |